

# INDUSTRY CIRCULAR

OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE  
ALCOHOL AND TOBACCO TAX DIVISION



WASHINGTON 25, D. C.

Industry Circular No. 64-19

October 23, 1964

## VOLATILE FRUIT-FLAVOR CONCENTRATES IN WINE PRODUCTION

Proprietors of bonded wine cellars and  
volatile fruit-flavor concentrate plants,  
and others concerned:

Purpose. This circular is being issued to advise you of the enactment of Public Law 88-653, amending the Internal Revenue Code of 1954 to authorize the use of volatile fruit-flavor concentrates in the cellar treatment of wine, and of our plans to implement that law. The law becomes effective December 1, 1964.

Background. Public Law 88-653 provides for the transfer of volatile fruit-flavor concentrate from a concentrate plant to a winemaker and for the use of the concentrate in the production of natural wines. To be eligible for such transfer and use, the volatile fruit-flavor concentrate must not exceed 24 percent alcohol by volume. In order that the concentrate might be suitable for use in wine, the law has provided that no substances need be added thereto to render it unfit for beverage purposes. The concentrate, if made from grapes, may be added only to wine made from the same variety of grape; if made from berries, may be added only to wine made from the same kind and variety of berry; and if made from other fruit, may be added only to wine made from the same kind of fruit. Somewhat similar provisions were made for the addition of volatile fruit flavor to juice, concentrated juice, or must which has been processed at a concentrate plant and which is to be used in the production of wine; in such case either the identical volatile fruit flavor removed or an equivalent quantity of such flavor is required to be added to the material or to the wine produced therefrom. Other restrictions and provisions relating to the use of volatile fruit-flavor concentrates in the production of wine are also contained in Public Law 88-653, as will appear from the following discussion and from a careful study of the regulations which, it is planned, will be issued in the near future.

Highlights of proposed regulations. Proposals for the amendment of regulations in 26 CFR Parts 198 and 240, to implement the provisions of Public Law 88-653, have been developed and are being processed. In accordance with authority contained in the law, 26 CFR Part 240 will provide for the posting of bond by the winemaker to cover the transfer of the volatile fruit-flavor concentrate to his premises, and the storage and use of the material therein. The regulations will provide for the keeping of

records, by the proprietor of the concentrate plant, of volatile fruit-flavor concentrate transferred; for the keeping of records, by the winemaker, of volatile fruit-flavor concentrate, and of juice, concentrated juice, or must, received from a concentrate plant; and for the reporting of materials.

New forms prescribed. Three new forms are being provided under the proposed regulations. Form 3872, Fruit-Flavor Concentrate Bond, will be required of each proprietor of a bonded wine cellar desiring to receive volatile fruit-flavor concentrate from a concentrate plant. Such a proprietor will also be required to file a Form 3873, Application for Fruit-Flavor Concentrate, for each concentrate plant from which he desires to receive volatile fruit-flavor concentrate. Form 3874, Notice of Transfer of Fruit-Flavor Concentrate, will be filed by the proprietor of the concentrate plant to cover each shipment of concentrate to a bonded wine cellar. Instructions for the use of these forms will be given in greater detail in the amended regulations and in the instructions on the forms.

Entries on reports, Forms 1695 and 702. A revenue procedure is being issued to furnish instructions for making entries on Forms 702 and 1695. The revenue procedure will provide that the transfer of volatile fruit-flavor concentrate to bonded wine cellars shall be reflected by appropriate entries on Form 1695, Monthly Report of Concentrate Manufacturer, in the appropriate columns, at the line immediately below the line entitled "Removed (without treatment)". The line on which these entries are made shall be identified as "Removed to B.W.C.". The receipt and use of volatile fruit-flavor concentrate shall be reported by the winemaker in Part IV of Form 702, Monthly Report of Wine Cellar Operations, in an otherwise unused column, and an entry shall be made at the heading of the column to appropriately identify the volatile fruit-flavor concentrate. A separate column shall be used for concentrate from each kind of fruit or berry. Other blank columns will also be used, as needed, for entries for fruit juice from which the volatile fruit flavor was removed, but not restored, prior to receipt on the bonded wine cellar premises. Juice from which the volatile fruit flavor was removed, but to which it has been restored prior to receipt, shall be reported in Part IV in the same manner as other juice. Concentrate to which the volatile fruit flavor has been restored prior to receipt shall be reported in Part IV in the same manner as other concentrates.

Inquiries. Any inquiries concerning this industry circular should refer to its number and be addressed to your Assistant Regional Commissioner (Alcohol and Tobacco Tax).

  
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Acting Director, Alcohol and Tobacco Tax Division